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Apparent Theft at Mt. Gox Shakes Bitcoin World

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The most prominent Bitcoin exchange appeared to be on the verge of collapse late Monday, raising questions about the future of a volatile marketplace.

On Monday night, a number of leading Bitcoin companies jointly announced that Mt. Gox, the largest exchange for most of Bitcoin's existence, was planning to file for bankruptcy after months of technological problems and what appeared to have been a major theft. A document circulating widely in the Bitcoin world said the company had lost 744,000 Bitcoins in a theft that had gone unnoticed for years. That would be about 6 percent of the 12.4 million Bitcoins in circulation.

While Mt. Gox did not respond to numerous requests for comments, and the companies issuing the statement scrambled to determine the exact situation at Mt. Gox, which is based in Japan, the news helped push the price of a single Bitcoin below $500 for the first time since November, when it began a spike that took it above $1,200.

But at the same time that the news about Mt. Gox was emerging, a New York firm announced plans to create an exchange that could draw the world's largest banks into the virtual currency market for the first time.

The new exchange is being put together by SecondMarket, which rose to fame a few years ago after creating a platform for buying and selling shares of companies like Twitter and Facebook before they went public.

Without the trouble at Mt. Gox, the SecondMarket plans would have been seen as a major boon for virtual currencies, providing a potential entry point into the Bitcoin market for large banks, which have so far avoided virtual currencies as their price has skyrocketed.

Barry Silbert, SecondMarket's chief executive, said that he had already talked with several banks and financial companies about joining the new exchange, along with financial regulators, and that he hoped to have it in operation this summer.

But plans for any new venture will be tested by the collapse of Mt. Gox, which could shake the faith of early Bitcoin adopters. Ryan Galt, a blogger who writes frequently about Bitcoin and was one of the first to circulate the news about Mt. Gox, wrote on Monday: "I do believe that this is one of the existential threats to Bitcoin that many have feared and have personally sold all of my Bitcoin holdings."

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On Monday, Mt. Gox took down all of its previous posts on Twitter, one day after its chief executive, Mark Karpeles, resigned from the board of the Bitcoin Foundation, a nonprofit that advocates for virtual currencies.

A statement from the chief executives of Bitcoin companies like Coinbase, Circle, Blockchain.info and Payward, said that the "tragic violation of the trust of users of Mt. Gox was the result of one company's abhorrent actions and does not reflect the resilience or value of Bitcoin and the digital currency industry."

The events are in keeping with the stark ups and downs of Bitcoin's short existence.

Released in 2009 by an anonymous creator known as Satoshi Nakamoto, the Bitcoin program runs on the computers of anyone who joins in, and it is set to release only 21 million coins in regular increments. The coins can be moved between digital wallets using secret passwords.

While Bitcoin fans have said the technology could provide a revolutionary new way of moving money around the world, skeptics have viewed it variously as a Ponzi scheme or an investment susceptible to fraud and theft.

Many leading names in the Bitcoin community were still trying to determine the scope and potential consequences of the troubles at Mt. Gox. A document detailing the purported theft, labeled "Crisis Strategy Draft," appeared to come from Mt. Gox.

While officials at the Bitcoin Foundation could not verify the origins of the document, they were preparing for the closure of Mt. Gox.

Patrick Murck, the foundation's general counsel, said that "this incident just demonstrates the need for initiatives by responsible individuals and responsible members of the Bitcoin community like what's being described" in SecondMarket's initiative.

Mt. Gox's difficulties this week are only the latest in a long line of problems at the Tokyo-based exchange. Created in 2010, Mt. Gox quickly became the most popular place to buy and sell Bitcoins. But the firm has suffered several intrusions and technological mishaps, which have led to steep declines in the currency's price. A few weeks ago the company stopped allowing its customers to withdraw Bitcoins after it said it had discovered a flaw in some of the basic Bitcoin computer code.

While other exchanges were briefly hit by problems, they came back online. Mt. Gox never opened up again, prompting speculation about its future.

Until now, the major Bitcoin exchanges have all allowed anyone from the public to buy and sell virtual currency. SecondMarket's plan is to create a platform more like the New York Stock Exchange, where only large institutions can join and trade.

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Mr. Silbert says he will only open the exchange once they have several regulated financial institutions signed on as members. His hope, he says, is to give them partial ownership so that they have an incentive to trade there.

For much of Bitcoin's life, banks have viewed the virtual currency with either derision or dismissiveness.

Recently, though, a number of banks have released research reports that have been less negative. A December report from Bank of America said that virtual currencies could become an important new part of the payment system, allowing money to move more cheaply than it does with credit cards and money transmitters like Western Union.

The statement from the Bitcoin companies on Monday night, which was not signed by Mr. Silbert, said that "in order to re-establish the trust squandered by the failings of Mt. Gox, responsible Bitcoin exchanges are working together and are committed to the future of Bitcoin and the security of all customer funds."

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